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C O N F I D E N T I A L SECTION 01 OF 02 ROME 000474

SIPDIS

DOD PASS TO OSD - STEVE WILLIAMS

E.O. 12958: DECL: 01/29/2012

TAGS: [EAGR](#) [ECON](#) [EFIN](#) [IT](#) [ECON](#) [EFIN](#) [IT](#) [PREL](#) [FAS](#) [PRELEAGR](#) [FAS](#)

SUBJECT: FINMIN VIEWS ON JOINT STRIKE FIGHTER, TERRORIST
ASSETS, THE EURO AND THE ECONOMY

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REF: ROME 372

CLASSIFIED BY: ECONOMIC MINISTER COUNSELOR MARGARET M. DEAN BY
REASON 1.5 (A) AND (E)

SUMMARY

1. (SBU) WHEN THE AMBASSADOR CALLED ON FINANCE MINISTER GIULIO TREMONTI, HE PRAISED ITALIAN ACTION IN FREEZING TERRORIST ASSETS, INQUIRED HOW ECONOMIC REFORM WAS PROGRESSING AND MADE A STRONG ARGUMENT THAT THE JOINT STRIKE FIGHTER WAS IN ITALY'S TECHNOLOGICAL AND COMMERCIAL INTERESTS. TREMONTI WAS PLEASED WITH THE WAY THE INTER-MINISTERIAL FINANCIAL SECURITY COMMITTEE WAS WORKING TO IDENTIFY AND FREEZE TERRORIST ASSETS, DESCRIBED HIS PROGRESS AND PROBLEMS WITH IMPLEMENTING ECONOMIC REFORM, PARTICULARLY IN THE AREAS OF TAX AND PENSION REFORM, FRETTERED ABOUT FINANCING PUBLIC DEBT IN A EURO CAPITAL MARKET, AND WAS INTERESTED IN OUR ARGUMENT SUPPORTING THE JSF. END SUMMARY.

WAR ON TERRORISM

2. (C) AMBASSADOR SEMBLER PAID A COURTESY CALL ON FINANCE MINISTER GIULIO TREMONTI WEDNESDAY, JANUARY 23. ALSO PRESENT WERE U/S DOMINICO SINISCALCO AND DIPLOMATIC REPRESENTATIVE GUGLIERMO ARDIZZONI. IN RESPONSE TO THE AMBASSADOR'S EXPRESSED APPRECIATION FOR THE HIGH LEVEL OF ITALIAN
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COOPERATION AND ENFORCEMENT OF THE FINANCIAL WAR ON TERRORISM, TREMONTI SAID THAT HE WAS PLEASED WITH THE OPERATION OF THE NEWLY ESTABLISHED FINANCIAL SECURITY COMMITTEE. HE PRAISED IT AND ITS BI-MONTHLY MEETINGS, AS FRUITFUL, EFFICIENT, WORKING IN CLOSE COOPERATION, AND CAPABLE OF EFFECTIVELY MONITORING LISTS FROM US AND THE E.U., BUT ALSO CAPABLE OF GENERATING ITS OWN LISTS. (COMMENT: WE FIND THIS IS A RARE EXAMPLE OF A STRONG, FUNCTIONING INTER-MINISTERIAL COMMITTEE. MUCH OF ITS OPERATIONAL SUCCESS BELONGS TO TREMONTI AND SINISCALCO. END COMMENT). TREMONTI AND SINISCALCO NOTED THAT ACTUAL PERFORMANCE IS EVEN BETTER THAN IT APPEARS BECAUSE THERE ARE ACTUALLY TWO LISTS. ONE IS THE LEGAL LIST, WHICH HAS JURIDICAL DIMENSIONS, AND ONE IS AN OPERATIONAL LIST FOR THE LAW ENFORCEMENT SERVICES WHICH ALLOWS A WIDER HORIZON OF SURVEILLANCE AND INVESTIGATIVE ACTIVITY.

THE ECONOMY

3. (SBU) IN RESPONSE TO A QUESTION ON THE ECONOMY, TREMONTI THEN PRESENTED A LIST, SHOWING THE STATUS OF ACTION ON ALL OF THE PRIME MINISTER'S FINANCIAL CAMPAIGN PROMISES. EVERY ONE HAD BEEN ENACTED INTO LAW (E.G., REFTTEL) EXCEPT THE REFORM OF THE TAX LAW AND OF THE PENSION SYSTEM. THESE ARE TWO OF THE MOST DIFFICULT AREAS, AND ONES THAT LIE OUTSIDE OF THE SOLE CONTROL OF THE MINISTRY. THEY EXPECT TO MAKE PROGRESS IN THESE TWO AREAS, ALTHOUGH THE UNEXPECTEDLY LARGE DEFICIT THAT THE TREMONTI GROUP HAD FOUND WHEN THEY ARRIVED IN OFFICE HAS MADE TAX REFORM MUCH MORE DIFFICULT. (COMMENT: PREVAILING
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GLOBAL MARKET CONDITIONS AND DECLINING TAX REVENUES, PRIMARILY FROM CAPITAL GAINS, ALSO HAS PUT PRESSURE ON THE GOI'S COFFERS).

4. (SBU) TAX REFORM, HOWEVER, IS A HIGH PRIORITY BECAUSE IT WAS CENTRAL TO THE BERLUSCONI CAMPAIGN. TAX REFORM IS A PROMISE THAT BERLUSCONI IS COMMITTED TO KEEPING. MANAGING THE BUDGET AND THE DEFICIT (AND INDIRECTLY THE TIMING OF TAX REFORM) DEPENDS ON THREE THINGS: THE COMMISSION, THE ITALIAN ECONOMY AND ITALY'S OWN CONTROL (I.E., LEGISLATION, DEVOLUTION OF EXPENSES TO THE REGIONS, ETC.). EXPENSES FOR AFGHANISTAN WERE NOT OVERWHELMING AND COULD BE MANAGED.

LEGALLY, TAX CUTS MUST BE COVERED BY OTHER MEANS. (NOTE: RECOVERY CANNOT TECHNICALLY BE SPREAD OUT OVER TIME, BUT MUST OCCUR IN THE SAME TAX YEAR.) THIS HAS BLOCKED A CERTAIN AMOUNT OF PUBLIC SPENDING. TREMONTI REMAINED CONFIDENT THAT IT COULD BE DONE HOWEVER, SAYING THAT "SINCE 1992, WE HAVE DROPPED MANY POINTS IN THE DEFICIT/GDP RATIO; WE ARE ONLY TALKING ONE OR PERHAPS 1.5 PERCENTAGE POINTS NOW". (COMMENT: THE GOI OFFICIALLY MAINTAINS THAT THE DEFICIT WILL BE 1.1 PERCENT IN 2001. WE BELIEVE THAT WHEN FOURTH QUARTER RESULTS ARE IN, THE DEFICIT WILL BE CLOSER TO 1.3 PERCENT.)

15. (SBU) NONETHELESS, TREMONTI IS LOOKING FORWARD TO STARTING THE TAX REFORM DISCUSSION. HE ANTICIPATES A NEW FISCAL FEDERALISM, ALTHOUGH HE WAS NOT SURE WHEN THAT WOULD BE. THE FIRST STEP WILL BE A SIMPLIFICATION OF THE MULTIPLE,

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ACTION EUR-00

INFO	LOG-00	NP-00	AGRE-00	AID-00	A-00	ACQ-00	CA-01
	CCO-00	CEA-01	CIAE-00	COME-00	CTME-00	INL-00	DOTE-00
	SRPP-00	DS-00	EB-00	EXIM-01	E-00	FAAE-00	FBO-00
	VC-00	FRB-00	H-01	TEDE-00	INR-00	ITC-01	LAB-01
	L-00	VCE-00	M-00	AC-01	DCP-01	NSAE-00	NSCE-00
	OCS-03	OMB-01	OPIC-01	OPR-01	PA-00	PM-00	PRS-00
	ACE-00	P-00	SCT-00	SP-00	IRM-00	SSO-00	SS-00
	STR-00	TRSE-00	T-00	USIE-00	USSS-00	SNIS-00	NISC-00
	PMB-00	DSCC-00	DRL-02	G-00	NFAT-00	SAS-00	/016W
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FM AMEMBASSY ROME
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SECDEF WASHDC
INFO AMCONSUL FLORENCE
AMCONSUL MILAN
AMCONSUL NAPLES

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SOMETIMES CONFLICTING, LAWS ON TAXATION. THE NEXT STEP WOULD BE TO REDUCE THE TAX BRACKETS AND TO REDUCE THE RATE OF TAX. (COMMENT: SIMPLIFICATION IS A CHARACTERISTIC GOAL FOR TREMONTI. HE CLEARLY USES IT AS A CRITERION FOR ACTION AND IT WAS A CRITERION UNDERLYING THE LAWS THAT WERE ALREADY PASSED. END COMMENT).

THE EURO

16. (SBU) ON THE INSTITUTION OF THE EURO, TREMONTI SAID THERE WAS NO IMPACT OPERATIONALLY. THINGS WERE GOING WELL. HOWEVER, THE PUBLIC DEBT IS HIGH AND NOW FOR THE FIRST TIME THE COST OF FINANCING THE PUBLIC DEBT BECOMES MUCH MORE TRANSPARENT. THE FINANCING RATE BECOMES CRITICAL, BUT HAVING A SINGLE CURRENCY SHOULD MAKE THE PROCESS MORE COMPETITIVE AND MORE EFFECTIVE. TREMONTI'S CONCERN IS THAT ITALY STAY WITHIN THE MAASTRICHT TREATY GUIDELINES. STATING THAT THE ITALIAN GDP WAS DIRECTLY LINKED TO BOTH THE GLOBAL AND U.S. ECONOMIES, TREMONTI WAS MUCH MORE INTERESTED IN A POTENTIAL US ECONOMIC RECOVERY.

JOINT STRIKE FIGHTER

17. (C) THE AMBASSADOR MADE A CLEAR EXPLANATION OF THE BENEFITS TO ITALY ON JSF PARTICIPATION, PARTICULARLY AT A FULL LEVEL TWO COMMITMENT. HE EXPLAINED THE INDUSTRIAL PARTICIPATION AS WELL AS THE RETURN ON JSF SALES TO ITALY AS
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A PARTNER. THE AMBASSADOR EMPHASIZED THAT THE INDUSTRIAL PARTICIPATION WAS NOT JUST FOR ONE COMPANY BUT COULD INCLUDE COMPANIES ACROSS ITALY. HE MADE CLEAR THAT ITALIAN PARTICIPATION WOULD BE WELCOME, PARTICULARLY IN THE DESIGN STAGE, AS AN AREA OF ITALIAN STRENGTH AND THAT LOCKHEED IS AWARE OF MANY SMALL AND MEDIUM SIZE COMPANIES THAT WOULD BE COMPETITIVE FOR CONTRACTS. HE ALSO MENTIONED THE LOOMING

DECISION DEADLINE AS REAL BECAUSE LOCKHEED IS CONTRACTUALLY OBLIGATED TO THE USG TO ASSIGN CONTRACTS (THE POINT OF INTENSE ITALIAN INTEREST) IN THE NEAR FUTURE. (COMMENT. THE AMBASSADOR MADE THE SMALL AND MEDIUM SIZE INDUSTRY POINTS BECAUSE WE HAVE FOR SOME TIME BELIEVED THAT ALENIA'S GIORGIO ZAPPA, WHO IS NEGOTIATING FOR ALL OF ITALIAN INDUSTRY, IS NOT REPRESENTING ANYONE'S INTERESTS BUT ALENIA'S. THUS, WE BELIEVE THAT THE GOVERNMENT OVERALL IS LESS THAN FULLY KNOWLEDGEABLE OF ALL THE BENEFITS THAT MIGHT ACCRUE TO ITALY FROM THE JSF.)

18. (C) TREMONTI SAID THAT THE DECISION WAS GOING TO BE MADE BY BERLUSCONI. FINANCE'S ONLY RESPONSIBILITY IS "WE WILL PAY". HE DID NOT PROFFER ANY VIEWS ON THE DIFFERENCES BETWEEN A DECISION TO BUY-IN AT ONE BILLION VERSUS EIGHT HUNDRED MILLION DOLLARS. NOR DID THEY HAVE THE DETAILS. DESPITE SAYING THAT FINANCE WILL PAY, TREMONTI WAS EXTREMELY INTERESTED IN THE MECHANICS: WOULD THE GOVERNMENT BE ABLE TO WRITE THE MONEY FOR JSF INTO AN INVESTMENT CATEGORY, AS AN ACQUISITION OF EQUITY, OR WOULD IT HAVE TO BE LISTED AS AN EXPENDITURE? WOULD THE MONEY GO TO ITALIAN FIRMS, THE USG OR US CORPORATIONS? (COMMENT: WE WILL APPROACH MOD ABOUT PROVIDING INFORMATION TO MOF OR TO INCLUDE THEM (AS WELL AS THE MINISTRY OF PRODUCTIVE ACTIVITIES, AND PERHAPS THE

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MINISTRY OF TECHNOLOGICAL INNOVATION) IN THE UP-COMING
INDUSTRY BRIEFING AS POTENTIAL SUPPORTERS OF ITALY'S
PARTICIPATION.)
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